

DROP Low Risk, Variable Rate Option

Frequently Asked Questions

“SECTION 26 DROP

(D) Interest and Administrative Costs - Interest shall accumulate annually, whether positive or negative, during the DROP calculation period, less the cost of administering the DROP, all of which shall be determined by the Board of Trustees.

A DROP participant shall have the opportunity to elect, as provided in this subsection, an investment option to be applied to such DROP participant’s account for the Plan Year when entering the DROP and for each subsequent Plan Year.

In such election, the DROP participant shall choose to have interest accumulate annually, whether positive or negative, at either

- (i) a rate reflecting the Fund’s net investment performance, as determined by the Board of Trustees, or*
- (ii) a rate reflecting a low-risk variable rate selected annually by the Board of Trustees in its sole discretion.*

Each election must be made at such time, on such forms, and in such manner as the Board of Trustees may determine in its sole discretion.

If the DROP participant fails to make a valid election upon entering the DROP, the Fund interest rate shall be applied as provided herein.

If the DROP participant fails to make a valid election in a subsequent Plan Year, the election for the then-current Plan Year shall be applied.”

Q1. What is the purpose of this new low risk, variable rate option for DROP?

A1. To provide the opportunity for risk averse DROP participants to choose a less risky option for their DROP money than the pension fund’s return. The primary purpose of this low risk, variable rate option is **capital preservation**—not growth and not income.

Q2. When does this option become available?

A2. October 1, 2011 prospectively.

- Q3. So when can I sign up for this low risk variable rate option?
- A3. October 1-31, 2011 and each October 1-31 thereafter while you are in DROP.
- Q4. How many times per year can I change my DROP return option?
- A4. Once per year, in October.
- Q5. Why October?
- A5. This benefit option is effective October 1, 2011. The fund's fiscal year begins October 1. DROP statements are based upon the fiscal year beginning October 1. By each October, the *preliminary* rate of return of the fund as provided by the investment manager for the fiscal year just ended September 30 is available so that DROP participants can make an informed decision on whether they want to choose the fund's return or the low risk variable rate option return for the fiscal year beginning October 1.
- Q6. How do you envision this working for someone who is in DROP for 5 years?
- A6. Everyone's financial objectives are different. It is assumed that many DROP participants starting out may choose the fund's return option for the 1st, 2nd and probably 3rd year if the market is stable and fund returns are positive. However, in their 4th and 5th year when they have the highest amount of DROP money at risk, it is assumed that some may become more risk averse and choose the low risk variable rate option in the last year or two of DROP to minimize potential loss of capital. Of course no one can predict human behavior or the capital markets with precision.
- Q7. Let me give you a hypothetical situation--if I choose the fund return in October 2017, but the market goes way down in say, January 2018, when is the soonest I can change to the low risk, variable rate option?
- A7. In October 2018. You may change your DROP rate option once per year in October.
- Q8. Why is the low risk, variable rate option is so low?
- A8. There is a risk / return tradeoff in any investment. Low risk generally yields low return, but has less potential for significant loss. Higher risk generally yields higher return in order to compensate for the risk being taken, but also has the potential for significant losses. Recall that the primary purpose of this new low risk variable rate option is *capital preservation*, safety of capital. The market yield on very low risk investment vehicles is very low right now.

Q9. So this new low risk variable rate option is just like the Nationwide fixed account or the FRS fixed rate for the FRS DROP?

A9. No. It is not a *fixed* rate, it is low risk and will vary with the market.

Q10. Does this new low risk variable rate option guarantee that I can't lose any money?

A10. No. There are no guarantees. However, it is highly unlikely that the return on such a low risk vehicle would turn negative—approach zero, yes, but significantly negative, highly unlikely.

Q11. I'm already in DROP now (before 9/30/2011), what happens if I don't make an affirmative election one way or the other on the DROP return?

A11. By default, you are in the fund return option because it was the only option available until October 1, 2011. If you don't make an affirmative election one way or the other between October 1-31, 2011, you will remain in the fund return option for the next fiscal year October 1, 2011 – September 30, 2012.

Q12. I'm already in DROP now (before 9/30/2011), what if I want to stay with the fund return?

A12. Then you don't need to do anything. By default you are in the fund return option, and if you don't want to change it, you don't need to do anything—you will stay in the fund return option.

Q13. What if I don't make an affirmative election one way or the other in future years while I'm in DROP?

A13. Then you would remain in whatever DROP return option you were in the previous year. "If a DROP participant fails to make a valid election in a subsequent Plan Year, the election for the then-current Plan Year shall be applied."

Q14. Can I split my DROP and put part in the fund return and part in the low risk variable rate option, say 70% in the fund return and 30% in the low risk variable rate option?

A14. No.

Notes:

These FAQs are intended to provide general information. If there is a conflict between this document and the pension plan document, the pension plan document shall prevail.

A *preliminary* return may differ from a final, actual return once the fiscal year ending September 30 books have been closed out, generally by the November board meeting.

Past performance is no indication of future performance.